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Recommendations and A Proposal

FOR THE FORMATION OF

A PRODUCE EXCHANGE BANK FOR INDIA

to be established mainly with a view to finance India's Produce, at its source, at small Market Centres, in Transit inland to large centres, to Terminals at Port Towns and Overseas.

BY

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BOMBAY:
THE TIMES PRESS,
1924.

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SYNOPSIS.

FOREWORD.— Opens the topic.

VITA.— Heredity, Lineage, Education, Practical Experience and Special Personal qualifications of the Author.

SECTION 1.—*Argument*:—Economic re-generation and social re-construction a better outlet for the energy of the Indian youth than political propaganda.

SECTION 2.—*Argument*:—Development of Banking as basis of all economic development.

SECTION 3.—*Argument*:—Development of Banking in Ancient India.

SECTION 4.—*Argument*:—The possibilities of abuse under Joint Stock Enterprises.

SECTION 5.—*Argument*:—The causes of chequered growth of Indian Banking in the past.

SECTION 6.—*Argument*:—The advent of British Rule and the direction of the ambition of educated youth to Government Service and to the learned professions.

SECTION 7.—*Argument*:—The failure of the intelligentsia of the community to take to modern business machinery.

SECTION 8.—*Argument*:—In the absence of modern banking facilities a vast amount of capital is lying idle.

SECTION 9.—*Argument*:—Invisible drains on the country's active capital perhaps upsets the country's apparent favourable trade balance.

SECTION 10.—*Argument*:—The misdirected line in which banking is developed in India.

SECTION 11.—*Argument*:— An agricultural country like India primarily calls for banking facilities that will finance its produce from its source to its final destination.

SECTION 12.—*Argument*:—The functions of the Imperial Bank of India and the service it is doing in this direction.

SECTION 13.—*Argument*:—The exchange banks and their field of operations.

SECTION 14.—*Argument*:—The commercial banks and the limits of their activity.

SECTION 15.—*Argument*:—The dangers of the existence of smaller banks.

SECTION 16.—*Argument*:—Failures of attempts at Industrial Banking in India.

SECTION 17.—*Argument* :—The Co-operative movement, the pioneer in the line of work which we are advocating.
SECTION 18.—*Argument* :—The Savings Bank business in India.
SECTION 19.—*Argument* :—The line of banking in India needed at the first instance.
SECTION 20.—*Argument* :—The problem of financing produce of India restated.
SECTION 21.—*Argument* :—The object of our dissertation is to start a Bank.
SECTION 22.—*Argument* :—The central ideas in the organization of the Bank.
SECTION 23.—*Argument* :—Advances for permanent improvement of Agricultural Economy not our present aim.
SECTION 24.—*Argument* :—Institutions for permanent development of Agricultural Economy such as, exist in France and Germany are highly desirable and our final goal, but not our present aim in view of the existing conditions.
SECTION 25.—*Argument* :—The necessity of vast initial Capital and the manner of raising it.
SECTION 26.—*Argument* :—The approach to the Government.
SECTION 27.—*Argument* :—The forms of Government aid.
SECTION 28.—*Argument* :—The Government aid may be from the Central Government or from the Provincial Governments.
SECTION 29.—*Argument* :—The advantage of starting enterprises in such times which are not boom times.
SECTION 30.—*Argument* :—The state of mind of the investor class.
SECTION 31.—*Argument* :—The manner of approaching the investor class in these times.
SECTION 32.—*Argument* :—Prospects of success of and gains from the scheme.
SECTION 33.—*Argument* :—The various sources of revenue and possible sources of losses in the ordinary course of business.
SECTION 34.—*Argument* :—Effects of Famine conditions and how to guard against them.
SECTION 35.—*Argument* :—Incidence of branches and how to lower the cost.
SECTION 36.—*Argument* :—Staff difficulties.
SECTION 37.—*Argument* :—Some minor details of the organization.
SECTION 38.—*Argument* :—Can the present Commercial Banks undertake this type of work and should they do it.
SECTION 39.—*Argument* :—Co-operation of other Banks in bringing about the formation of such a Bank.
SECTION 40.—*Argument* :—Need of special legislation.

SECTION 41.—*Argument*:—Industries related to agriculture that the Bank can help, promote or undertake on its own behalf.

FOREWORD.

I present herein recommendations and a plan for the formation of a Bank that will meet to a certain extent some urgent needs of Banking in India. The very suggestion of bringing about the formation of a Bank or any big Corporation in these days of commercial depression would astonish those to whom the scheme is presented. They would think it futile to even go through the proposal. The general depression, the capricious monsoon and the unexpected rise in the Bank Rate portending a stiff Money Market ahead, all these will be considered as obstacles against the successful floatation of any big issue. The adverse fate of this year's Government Loan points in the same direction. Conscious of all these facts I beg to present my scheme for the perusal of responsible and leading Capitalists and thinkers in India showing them how I hope to materialize the project. When I say that the Bank which I propose to establish will be conducted along different lines than the Credit Institutions now existing in the country, I should not be understood to mean that I am going to make a revelation or that I deprecate the value of the work which the existing Institutions are now doing. The field of Banking in India is vast, and unexploited. I appreciate that no single individual or institution will cover the field of work I shall here try to indicate. My plea is only for the establishment of one such institution. In presenting my arguments for the project and an outline thereof, I have made no attempt at any show of erudition or display of deep scholarship by feeding the reader with statistics or at any effort at distinction of style. While writing these lines I have kept in my mind all along, the fact that I am addressing capable, competent, experienced and sound business men, scholars and thinkers, who have thought over all the arguments mentioned herein and perhaps know a good deal more of the subject than what I have stated here. I shall make a few simple statements to plain business men. My main attempt will be to make a systematic presentation of facts, commonplace and well known, to all business men and thinkers, in order to make a strong case for my proposal. I also want to convey to those whom I approach, the extent to which I have myself a grasp of the problem which I recommend and to indicate to a certain extent my capacity to execute it. For the benefit of those who do not know me personally I give at first a short sketch of my VITA with a view to acquaint them with the originator of the project.

DEOLALI, *25th August* 1924.

VITA

Dr. Prabhakar S. Shilotri, a Chandraseniya Kayastha Prabhu, Maratha of Bombay Presidency, was born on the 7th day of December 1883 in a small village in Thana District. He is a descendant of the famous family of Balaji Avaji Chitnis, the well known Private Secretary and confidant of Shivaji. His community is historically renowned for its loyalty, keen sense of responsibility and devotion to duty. This idea of lineage is not given with a view to boast of it or to emphasise caste distinctions which he himself deprecates, but to indicate heredity which counts as much as environment, opportunity, and The Will Force in the life work of men. It is not only the desire to do a thing but the power of performance, that is also essential. His parents were landholders and Sowcars or private bankers. His early education in Marathi, Sanskrit and English was gained through private tutors under the parental roof. In his early years, swimming and riding were, and are now, his favourite exercises that gives him vitality for his life work. Matriculating from the Thana High School, he completed the first two years' course at the Wilson College, Bombay, and in the early part of 1905, he proceeded to the United States of America and joined the Cornell University at Ithaca, New York. After four years' stay at the Cornell University, he graduated there with Economics and Statistics as his special studies. Subsequently, for the post-graduate work he entered the Columbia University in the City of New York for a special study of Economics and Sociology, etc. At Columbia he received his M.A. and Ph.D. Degrees, the latter at the end of four years' stay. While at Columbia he was appointed a University Scholar, Honorary Fellow and a Garth Fellow in Economics for three successive years and wrote his Doctorate dissertation pointing out the relation of the Indian temperament to India's economic development. While at the American Universities, he had the advantage of contact with and study under men like Professors Seligman, John Bates Clarke, Seager and Wilcox, the first three Economists of world fame and the latter a statistician of wide reputation for his analytic power. Apart from the knowledge he gained from these

gentlemen of Economics and Theory of Value, he also gained that wide outlook of life and a broad mind and sympathy that helped him considerably in his success in selecting, training, handling, retaining and getting his staff efficient in its work and loyal to his organization. While in New York during the interval of University terms he worked with various business houses which included a period of six months' service in a Banking and Brokerage House. Here he got an idea of the Stock Exchange and Money Market machinery of New York. He was also appointed as a Cost Statistician to one of the subsidiary companies of the United States Rubber Corporation at New Durham, New Jersey, and there he installed a system of Manufacturing Cost of Rubber Goods to the entire satisfaction of the management. Finally, he worked as a Statistician to a Commission appointed by the New York State Government for investigation of food prices in the New York State and there also, through his instrumentality the pace of the investigation and completion of the report was much accelerated, and his name was mentioned in the report. While studying in the United States he travelled through the cotton belt of the South and subsequently after finishing his studies in the United States, he stayed for some months at each of the three cities of London, Paris and Berlin and observed there the business methods and Money Market machinery of the respective cities. On his return to India in 1914, he accepted a part-time lecturership on Banking at the Sydenham College of Commerce and taught there the senior classes only. While working at the Sydenham College for a year and a couple of months, he had already started a business of his own as a Private Banker. While in this business he became acquainted with the Discount and Hundi business in the City of Bombay and with the existing machinery for the investigation and extension of Commercial Credit. The private business then started under the name of the Prabhakar Shilotri & Co. was, in October 1916, transformed into a Joint Stock Corporation—the present Shilotri Bank, Ltd. Its fully paid up Capital was then only One Lac of Rupees and its total floating assets only three lacs of rupees. In 1919 further capital was invited by public subscription and it is now raised to about four and a quarter lacs of rupees and the total floating assets to-day stand at about forty lacs. Throughout the career of the concern the policy of conservative investments has been followed and the institution, small as it is, enjoys to-day in the City of Bombay and

up-country a clean reputation, as to its integrity, credit and respectability. It will be interesting for many to know that during the entire career of the last ten years he never dealt in the Share Market before, during or after the boom times either for himself or for his concern, though he had lacs of rupees of other peoples' money at his command to operate in the Share Market. It may be mentioned that the results so far accomplished have been without any special backing or influence behind him and are the outcome of his own personality and clarity of judgment, the reason being, he spent the formative period of his life, *i.e.*, between the age of 20 and 30, abroad where he made some friendships and social connection but returned to his own country practically as a stranger.

RECOMMENDATIONS AND A PROPOSAL

FOR THE FORMATION OF

A PRODUCE EXCHANGE BANK FOR INDIA.

The undeveloped state of the economic resources of India, offers an unique opportunity for the employment of the energy and ability of the Indian youth. Except for some development in transportation, communication and irrigation, centuries of changing rules and rulers of India have left the economic life of the people of this country as backward as it was several centuries ago. Moreover a densely populated India can be termed a very sparsely settled country on the basis of a census of the capable and energetic units of its population and this very small proportion of the trained and energetic manhood is, in the absence of proper leadership, guidance or capital support, either remaining idle or employing its activities in the wrong direction. The youth of India would do better to work as a national volunteer for social reconstruction and economic regeneration of the country than to waste its energy for misguided and harmful political propaganda. It should leave politics to men of maturer years and wider experience of life. To-day we have in India the spectacle of an intelligent and potentially capable race under economic and political subjugation of others. The present state of affairs affords us the two-fold opportunity of developing the economic resources of the country and improving our manhood. It is the duty of leaders and responsible members of the Indian community to see that this is accomplished, if India is to take a step forward in the world polity. Productive power and the power of economic resistance of the population must be improved, social solidarity based on consanguinal consciousness of kind must be created, before we can hope for any substantial political progress in this country.

SECTION 2.—Germain to the above idea and basic to all branches of economic progress of the country is the development of the banking resources of the land (of course good government and a sound system of currency is taken for granted). The simplicity of Indian life and the bounty of nature leaves India from year to year considerable surplus earnings. It is only when man earns more than what is necessary for the mere existence of life that he commences the task of building either the superstructure of economic civilization or uses his leisure in speculation as to the meaning and purpose of

life. The safe conditions of life and the surpluses due to the bounty of nature were the main causes why India was the seat of the earliest dawn of human civilization. These surpluses, accumulating for centuries (if they had not been drained away by successive foreign invaders or remained idle in hoarding), would have (under a sound system of currency and capable entrepreneurship) worked a miracle in a country of such vast population and India would have been to-day as formidable and prosperous in her economic civilization as she is foremost in her spiritual insight. The money of the country must not remain idle but work for enhancement of national wealth. Our money along with our manhood has had an idle career and an holiday for centuries. . The result is we have still to begin the task of our economic regeneration and it is our duty to commence this task as early as possible. In doing this work in the department of banking, it would be better if we review our past attempts in this direction, the measure of their partial success, and causes of their failure in the majority of cases.

SECTION 3.—Ancient banking in India developed along the same lines as in every other country in the world. The private bankers undertook the custody of public funds payable on demand or after a fixed period, and used these resources either for lending or for trade purposes, in the former case aiming at as high a rate of interest as they could obtain and in the latter case trying for the highest profits available on their outlay. They were so to say merchant bankers, in the business for their personal gains and hence individually responsible to their creditors. The Banker at this period and stage of the development of Banking felt himself to be though not legally yet in some degree morally a bailey rather than a borrower of public funds and was more exact in his commitments and more careful in his advances to his clientele. The inland exchange business or what was and is now called the Hundi business was conducted with the same sense of individual responsibility and hence at greater safety to the public. Of course, the general banking habit or conception of banking in the modern sense of the word had not developed. The banker had no conception of the fact that he was a public functionary, in the field for public service and not merely for private gains, and that banking constitutes one of the highest type of public service with corresponding responsibilities, a service that is only next in importance to the

management of the Government of a country. Now we have to examine an interim period between this institution of Private Banking and the development of the safety of public funds in the hands of huge Banking institutions, result of experience obtained after a series of sad but salutary disasters.

SECTION 4.—With the advent of Joint Stock enterprises the entrepreneur in all branches of business became the master of other people's money on a greater scale than ever could have been dreamt of under the old regime of private enterprises. This position of power and prestige was at its early stages much abused in all branches of business and in all countries alike. The business of Banking formed no exception to this abuse of power, and India has had a full share of it. Possession of power and authority imposes upon those enjoying the privilege a corresponding sense of responsibility. The business of Banking calls for the highest sense of responsibility towards the public. In the case of Government, it has primarily the charge of protection of public life and preservation of the sanctity of contact. The Banker has a corresponding charge of protecting public savings and surpluses and enhancing the national wealth by directing them into right channels of investments. The rash experiments and abuse of power, in England before the formation of the present Bank of England, and in the United States before the formation of the Federal Reserve Banks, bear testimony to the statement that it is easier to obtain control over other people's funds than to protect and employ them profitably for national good. The history of Banking in every country in the world is practically a similar and monotonous story the struggle to regain a sound footing after repeated disasters and collapses as a result of inflation of credit and overtrading.

SECTION 5.—The development of Banking in India has so far had a chequered growth and Indian Banking as such can hardly be said to have commenced its career. Attempts by a few Indian-managed concerns are to be highly commended but they have hardly covered an infinitesmal portion of the field of Indian Banking. Some progress might have been possible in the last quarter of a century had not there been repeated disasters to check the growth. Just as the people got a little confidence and acquired the Banking habits some sort of catastrophe

or other has befallen and there has been a set-back and loss of confidence by the public in Indian Banking. The causes are not far to seek. Banking is an exact science and the art of Banking calls for a high character, supreme capacity and an excellent training. A Banker must be a selfless type of man, must possess a character above impeachment, a reputation for honesty, sound judgment and conservative temperament and above all an intuition and insight into human nature upon which will largely depend the results that he can secure. He has to be a man of high social status with influential social connections. He must also have sound knowledge of the theory of value and price levels. He has to be a gauger of the future possibility of rates of interest. He must have capacity to find and engage the right staff and be able to control it, inspire confidence in it and get the work done according to his ideas and create in it by his personality a sense of loyalty, duty and a keen sense of responsibility which beyond all factors counts in the success of any organization. In fact he has to be a sort of military general of his business forces with mercy, favour or vindictive spirit for no one. It is not so difficult to command capital or deposits but it requires supreme capacity to protect the funds—to direct them into proper channels, to invest them and yet keep them liquid, unlocked, unimpaired, and above all to keep away from the temptation of overtrading and speculation. Not of course that he can afford to neglect insufficiency of capital, which is a source of danger that must not be lost sight of. Many a Banking concern has failed simply on account of its being started with very small Capital.

Section 6.—A special reason for the failure of Indians to develop a sound, effective and widely spread Banking service may be found in the fact that after the advent of the British Rule there came to be a premium upon the knowledge of the English language itself. At the beginning of the British Rule there were very few people knowing the English language and those who availed themselves of the knowledge of the English language became indispensable intermediaries between the foreign rulers and the indigenous ruled. The result was that one having a little fluency in talking and writing the English language could command a good salary on the strength of the knowledge of the foreign language itself. This state of affairs turned the eyes of all the upper classes towards acquiring for their children the knowledge of the English

language and a career in the Government Service and other services conducted in the English language. Similarly, knowledge of law in English became valuable and a lucrative source of practice before the English Judges. This gave an impetus to the study of Law beyond all proportion. Other learned professions like Medicine and Engineering at the beginning of the Rule were not crowded and tempted parents to divert their children's energies into these lines. The only class of people who could have introduced the right modern methods of machinery into business organization and therefore also in the conduct of the Banks were diverted from these channels to those of Government Service and the learned professions. In the circumstances, those who remained as pioneers in the business were the same old communities who never cared for any education and who were hereditary in the business line. They always put their boys as apprentices into their own or other business offices while very young and without education. Commercial communities which were not so much actuated by motives to build superior methods of business organization but which were bartering the produce of the country with the foreigner for whatever speculative gains they could make could not possibly develop the scientific machinery of business in the country. They did nothing more than speculate in India's produce and play into the hands of the foreign exporter and importer. They had nothing to do with the building of national wealth or national welfare. Their own personal gain by speculative methods was their chief aim. We may mention, Bhatias, Borahs and Baniahs and Marwaris as instances of these ignorant parasites upon the country's wealth.

SECTION 7.—The Marathas and the Punjabis, who had a greater administrative genius and who therefore were more competent to build and conduct the scientific organization of the business of the country, were too busy with the political and administrative work in the time of their rule and subsequent to their fall they diverted their energies into Government Service and the learned professions. Their very ancestry had given them an inclination for political service rather than for business organization. If their energies could have been diverted into business channels at the advent of the British Rule the story of the business development of India would have been a different one from what it is to-day. The Parsis and the Gujarathis, also highly intelligent communities

with an additional advantage of natural aptitude for a business career, have so far directed their energies towards the more immediately lucrative branches of economic development, such as Trade, Commerce and Manufacture to a certain extent but to a considerable degree to speculations in the produce of the soil and imports for the consumer. A considerable part of the so-called business activity going on in Bombay and other leading cities of India consist mainly in speculative activities, activities resulting not in creation of wealth but in transfer of wealth from one party to another. We thoroughly recognise the steadying influence which the speculative activity has upon the price levels and the benefit accruing therefrom to the consumer. However, speculations beyond a certain limit and aided by inflated currency have been the bane of the Indian commercial activity. Every one who wanted to make money thought that if he had capital all he had to do is to go in for Teji (bull) or Mandi (bear) activity and sit at home and reap the harvest. The result was, what little attempts at the development of Banking were made (of course with a few exceptions), were made by men without proper training and education, without background of character and that a high sense of duty which comes only out of a high family descent and an excellent training. One of the most humorous situations that we find in India is that a parent will think of a business career for his boy only when he finds the boy unable to become a Matriculate or Graduate, never thinking that business organization calls for as high an intelligence and perhaps a higher than what is required for learned professions. During my ten years' experience in Bombay, I have had various occasions when parents of well-to-do boys and others have approached me deploring the fact that their boy is a failure in education and saying they would like to give him a trial in a business career. Nothing is more surprising and erroneous than the notion that a business career does not call for high abilities. If a boy is a failure in education and if he has not the push and the force and the will, and the stamp of character, the level of intelligence that is required for learned professions, he will scarcely be a fit person to build a higher and scientific business organization. This misguided notion of the requirements of intelligence in business line has been a source of temptation to a lot of men of ordinary calibre to try their hands at such responsible undertakings as the

business of Banking and we have seen the results. As far as success is concerned in the Banking line in India (unlike any other civilized countries where thousands of institutions exist already), it is not a question of competition. The field is open. There is room for many. There is a high premium upon the mere fact of honesty, integrity and uprightness. Once the reputation for honesty is established, success becomes automatic. Business honesty and a little more than average intelligence and proper training are the only essential factors in the preliminary stages of the work.

SECTION 8.—The field for the development of Banking in India is vast. Many thousands of small and large market centres call for tens of thousands of banking institutions and branches. There are two thousand small and large market centres in India and over seven lacs of villages which would welcome banking facilities of the modern type. The crying need of funds at the time of seasonal movement of crops exposes the situation from year to year, in its bare nakedness. If once these institutions are developed and the gigantic machinery of credit is set in motion, it will not only serve the existing banking needs of the country but it will liberate and put into circulation a vast amount of capital for the use of the producer, the trader, the industrialist and the Government alike. India is a creditor country, exporting more in value of her produce than she imports in goods. Not being an industrial country her surplus revenues, if they were in free circulation, could not have been made to yield a high return and we could have witnessed a money market in this country abundantly full of funds offered at a low rate of interest not only to meet home demand but for investments abroad. However, owing to the absence of banking institutions and banking habits among the people, the situation is just the reverse and it has to be rectified.

SECTION 9.—Not only a great portion of the country's surplus earnings remain idle, unemployed and unproductive, but such of them as come into circulation are lost to the country by many invisible drains. Prior to the Government of the Crown in India, the foreign invaders openly looted the country without any pretext and the East India Company's Officials exacted large sums from their proteges under some excuse or other. After the establishment of a systematic rule and a peaceful regime, different kinds of drain on

the country's resources commenced. A foreign government demands its home charges, a foreign service, both political and commercial, takes away its share of salaries, the foreign manufacturer pours in his goods, foreign shipping has begun to earn huge freight charges, foreign insurance companies take away large sums in premia, foreign investors take away their profits, interests and dividends, foreign bankers have practically captured all the exchange, deposit and loan business, and an unsound currency not failing in its help, it may be doubtful whether the apparent trade balance now in favour of India is not really more than counter-balanced by the total of these invisible drains. It will form an excellent study for some scholar to go in detail into the problem and investigate. By the word foreign drain we should not be meant to believe that we have any objection to any foreigner making India his home and becoming prosperous. India has during the thousands of years of her civilised career absorbed and accepted in her fold humanity of such diverse types—racial and religious—we need not grudge the white man's desire to make India his home and seek his fortune here, if he feels himself an Indian. Our grievance is that he comes here as a bird of passage and during his tour carries away the country's wealth to add to that of his own country. This outward stream of our capital must be stopped and re-directed home.

SECTION 10.—The execution of so ambitious a programme or even a small part thereof calls for a measured pace. Before we outline our programme and the manner of its execution, we may learn a lesson from our previous experience. The attempts to build banking institutions in India have so far been in slavish imitation of the western countries, no attention being paid to the particular conditions obtaining in India or to the special needs of the indigenous problem. The result has been that we have had accumulations of capital at the commercial centres offering to the management temptations to corner and speculation simultaneously with a crying need of funds at the centres of production and at smaller market centres, where through the Sowcar machinery financing is being done at an exorbitant rate of interest. The idea is not so much to build a system of Banking to suit the country's needs as to accumulate funds for personal gains and to serve private interests. The results are obvious. Either public funds are locked up and impaired in private enterprises or vanish altogether in wild speculations

undertaken by the management with a view to private gains and exorbitant profits. We do not deny the fact that commercial banking has been developed to some extent at a few large centres.

SECTION 11.—The criticisms in the foregoing sections impose upon us a duty to state a constructive proposal of the lines on which banking should develop in India. And this in turn necessitates a survey of the economic background on which the Indian banking structure has to be built. India is primarily an agricultural country, over 60 per cent. of its population eking out its existence from the produce of the soil. This fact in itself states the problem of banking in India more forcefully than any detailed investigation can reveal it to us. It is that banking in India has to be developed *in the first instance* in such a manner that it will primarily finance the produce of the soil. In detail we may say that the produce of India calls for banking institutions and facilities that will finance it, at source, at local markets, in transit inland to terminals at port towns and overseas. This constitutes a complete statement of the *major phase* of Indian banking but it is not by any means an exhaustive or an inclusive analysis. The development of Commercial and the Industrial Banking has as much a claim upon the energy of the pioneer in Indian Banking as this line of Banking, but our idea is only to emphasize that the primary need of Banking development in India consists in financing the producer as near the source as possible since that will give him a substantial advantage to improve his economic condition, the first need as a preliminary to future political progress.

SECTION 12.—It will be convenient to examine the existing machinery of Banking (meagre as it is) now obtaining in India. There is the first and the foremost, the recently formed Imperial Bank of India created under a legislative statute, out of the three Presidency Banks which previously existed as separate institutions. The Imperial Bank is restricted in its credit operations under the statute, by virtue of its connection with the Public Treasury. It is only right that the Bank of any country connected with the management of the Public Treasury should be curtailed and controlled in its credit operations. Its main function should be the regulation of gold and money supply to the market by its policy of rediscount, control of rate of interest, inflation and deflation of

currency to suit the trade demand and to save other Banks—in a grave emergency, after taking a stock of their position—or to avert money stringency or a general monetary crisis. Our present Imperial Bank has unfortunately no control over the currency system of the country and she cannot effectively act her part as the regulator of the Money Market. An agricultural country like India should not have any occasion for such economic and financial crises as those experienced by the more developed industrial countries. We have about as ideal a static condition as possible obtaining in this country as far as our economic activities are concerned and therefore the greater reason that we ought to be enabled to get along with a considerably less actual currency than we are now using. The extent to which fiduciary issues can be made use of simply depends upon the habits of the masses and the industrial development of the country. The more dynamic the state of the economic life of the country the greater the precaution that has to be taken as to the extent to which fiduciary issues can be utilized. As we have said before, the conditions obtaining in India being about as ideally static as could ever be found, the strain on the Currency is beyond all proportions to the actual requirements of the country's needs. This situation can be rectified if the masses are properly educated as to the value of credit instruments. But a discussion of our Currency System is not a part of this discourse.

SECTION 13.—Next in importance to the Imperial Bank of India and perhaps wider in the scope of their activities stand the so-called "Exchange Banks," branches of powerful English and foreign banking concerns long ago established with a view to finance and capture the Eastern Trade. The prestige and power of these concerns, combined with their connections with Commission Houses and Shipping Trade, is so great that they have practically monopolized India's oversea export and import exchange business. They have also, by virtue of their prestige, the merchant's necessity of a connection with them, and in the absence of powerful Indian banking institutions, attracted considerable amounts in deposits from Rajahs, Maharajahs, Jahagirdars, the wealthy gentry and the commercial community. They can have no interest in developing the Indian banking from the point of view of the Indian national needs. In fact, it is alleged that at one time they had assumed an

hostile attitude towards the growth of Indian banking. During the war some large Japanese Banks have also opened their branches and they are financing export and import trade with Japan.

SECTION 14.—Then we come to the Commercial Banks established under the Indian Companies Act, managed both by the Europeans and Indians. They join hands with the Imperial Bank and with the Exchange Banks in financing Indian produce at large market centres, in transit to port and at terminals through their head offices and branches. They also finance local trade by way of discount and rediscount of commercial paper, grant advances for stock and share transactions and to a certain extent help real estate business. It is in the history of the commercial banks that we had a sorry spectacle of repeated collapses of Indian banking. A diagnosis of this condition cannot be ascribed to any particular symptom. A tendency to speculation, untrained, incompetent and unreliable management, defective machinery for investigation of credit, a distorted vision of the line on which Indian banking should have developed, jealousy of foreign bankers, defect of banking law of the country and failure of the intelligentsia of the country to take to the activity of building banking machinery, all these jointly and severally contributed to bring about the shipwrecks. Some institutions have lately, benefitting from the previous experience, managed to steer clear their course. But they are few. The field of commercial banking in India is also practically wide open for exploitation in spite of some large concerns now operating. There are thousands of trade centres which call for modern banking facilities and modern methods of handling funds. Next in importance to the financing of India's produce at source is the need of financing India's produce at these small centres and teaching the smaller dealer and the general public of the country the use of credit instruments. The use of transfer of funds by cheque must become the common practice. Without development of modern banking facilities at small commercial centres, sense of credit in business amongst the masses cannot properly be developed. It is this work of financing produce at small centres that we first propose to undertake as the field of our activity. We realize that financing of produce at source is a still more important task, but to commence with our line of least resistance and to begin at the small market centres will be easier than immediately to tackle the more

difficult problem of financing the producer or cultivator at source. We shall indicate how later on we hope to solve that problem also.

SECTION 15.—Now we examine a minor but more dangerous phase of Indian banking. We mean the existence of petty banking institutions with small capital and with practically little or no influence behind them. The Punjab has been the guiltiest party in this line of activity, Bombay coming next. Of course, these are not particular outgrowths of the Indian situation or a result of any particular defect in the Indian temperament or character. The Joint Stock Company Law offers to any venturer or small promoter such wide privileges and facilities that no country has been secure from irresponsible promoters operating under the protection or with the help of the Act. Indian Banking has had in its career many instances of this abuse. It is especially in this respect that the Banking Law requires the careful and speedy revision of Legislation to protect the unsuspecting public from falling a victim to the unscrupulous venturer, inviting public confidence and misusing it. We would particularly recommend some sort of Legislation requiring an investigation of the Directorate and management, calling upon them to supply particulars as to their exact position, qualifications and reputation before permission is allowed to float a Credit Institution which calls for public confidence and the use of public funds on such a large scale. We would also recommend some system of bank examination whereby a Chief Examiner of the Banks or some such official of the Government who has a thorough insight in the business of banking, its ins, outs and intrigues, would without notice have power to enter into any banking institution and demand inspection of books, accounts, transactions, cash and securities, as he may please. Some sort of restriction on the type of investments of small banks with paid-up capital below a certain amount should be imposed. The story of these small banks is the same all over the world ; to command whatever public funds they can, give unsecured loans to relatives or friends, to lock them up in their own enterprises and eventually fail. Of course, undue interference in the activity of business concerns would hinder the growth of business enterprise in the country and therefore the legislation will have to be carefully worded and the rules framed under any statute of this nature will have to

be very liberally interpreted and mildly enforced until experience is gained as to their effect upon business activity.

SECTION 16.—Attempts at Industrial Banking in India on a large scale have been of recent origin. Artificial war demands under inflated Currencies and consequent high prices gave an impetus to industrial production especially to countries neutrally situated. India was one such. Though she was a part of the British Empire and as such one of the chief belligerents, though she supplied men and money for the cause of the war, yet to a considerable extent her civil life practically remained undisturbed for peaceful trades and industrial activities. She practically enjoyed the privileges of a neutral country. The high prices obtained for her manufactured products and the enormous profits earned, gave wild hopes and a distorted vision as to the possibilities of her industrial development. The post-armistice boom offered abundant capital for any enterprise presented to the public with an attractive prospectus and decorated by Directors who posed as shining lights. But the industrial progress of a country calls for an industrially trained population with powerful and highly competent inventors and promoters to employ it and especially in a country like India, a tariff policy of her own. Gradual attempts at industrial development might have succeeded, but such huge undertakings in slavish imitation of the Western Countries were bound to fail. These huge accumulations of capital could have been well utilized to develop the Indian Banking to suit the Indian needs. The opportunity is gone. We blame no one. But we proceed with a lesson from the past experience.

SECTION 17.—The co-operative movement claims our attention next. In fact it must be acknowledged that this is the movement that has already commenced the type of work which we have indicated and which we want to accomplish eventually on a larger scale and more effectively. This movement is really the pioneer in the line of the work we propose to undertake and it has anticipated a good many difficulties of the organization and management of this kind of work. They have also realized the necessity of some sort of Government aid to deal with the defaulter and transfer of funds from one centre to another. Much credit is due to the successive Registrars of Co-operative Credit Societies who have

unflinchingly tried to infuse a spirit of co-operation among the producers and the consumers. But co-operative movement can never become successful unless the units that co-operate are educated as to the value of co-operation and voluntarily join the movement. Whatever may be the merits of democracy and decentralization of power in political organizations, for business organization, if efficiency and effective service is to be secured, centralization and a strong central control is necessary. Co-operative movement relying as it does on its working by detached groups in detached centres cannot succeed in rendering effective service, for it will be unable to get the type of men to work up the activity at the different centres. It is one thing to talk of honorary work in other fields of life's activity, but in business organization gain and profit will always be the driving motive force. The very fact that while the Bank Rate sores high in time of seasonal movement of crops and there is a crying need for funds all over, the Co-operative Societies have actually large amounts lying idle as Deposits with the Commercial Banks is itself an indication that there is something wrong with the machinery of the management of these societies. Unless a very large concern is established which can afford to get highly paid management at the top to work out details for the smaller centres and control effectively the activity and lay down the policy, the type of Banking service that we propose cannot be given. The Government, of course, if it creates a department of its own for this purpose, as it has done in the case of Savings Banks business, and undertakes to guide the movement itself by engaging highly paid officers at the Secretariat and to engineer the movement, then it can succeed in doing the work, but that can hardly be called Co-operation or Co-operative Movement. It will simply be another move on the part of the Government to enter into a legitimate field of business for the private enterprise and if it is done under the pretext of co-operation or by any show of co-operation, the Government is only trying to plant an exotic upon the people who do not know what they are getting.

SECTION 18.—Now remains to be discussed the Savings Bank business. The conditions of Banking development obtaining in the India at the advent of the British Rule left open for exploitation the field of Savings Banks to the new comers with civilized notions. The result was that the Government Agency became the sole deposi-

tary of the Savings Funds of the country and the pioneer in the line. The business of Savings Banks, regulated and restricted as it is and as it should be as to its policy of investment, by Legislative Statute, is about the safest field of Banking for small private enterprises and also the best training ground for aspirants in the Banking line. The Government of India under the Crown became stable and the Indians could have taken an opportunity to develop this line of business. The Government with special Legislation restricting the scope of Investments of Savings Institutions could have encouraged the development of this line of Banking in India. But it was not to their interest to do so, nor had the Indians the capacity to take advantage of the opportunity. Moreover the eyes of the Indians were now turned to Government Service and to learned professions. Now under the present circumstances, the Government offering as high a rate of interest as 6 per cent. on its Savings Customers balances by way of Post Office Cash Certificates, it is impossible for the private agencies to thrive or to grow. It may be questioned if the Government has a right to borrow at such a high rate of interest at the expense of the Tax-payer. It is also an unfair competition that the Government is offering to the private enterprise.

SECTION 19.—Having examined the various fields for the development of Banking in India, the extent to which they have progressed, the control under which they have been working, we are now in a position to indicate the lines along which the march of our progress should continue *at the first instance*. I italicize the words *at the first instance* in order not to suggest that the other lines of development of this kind of work are of lower value than *the* one which I am about especially to advocate, conscious as I am of the importance of the other lines of development. If in this appeal I advocate the development of a particular type of Banking in this country as the *first line* of *attack* on our objective, I should not be understood to mean that I under-rate the other important avenues to our goal. I simply mean to indicate the first step as a preliminary to our future advance. The Exchange, the Commercial, the Industrial and the Savings Banks Business is just as legitimate a field for our ambition as the one which I am about to advocate and outline and these lines of gains must also be diverted from the foreigner into our hands. I, however, maintain that the type of Banking Development which I recommend herein is the major phase

and the chief need of Indian Banking at the present stage of our economic development.

SECTION 20.—With reservations mentioned in the last section, we affirm that the development of Banking in India most likely to succeed is one that will primarily finance the produce of the soil, that is, we repeat, we want in India, first and foremost, the development of Banking that will finance India's produce—at source, at neighbouring market towns, in transit to large market centres—at the terminals and overseas. This gives us a clear cut idea of the preliminary and the major needs of the Banking facilities required for India. These facilities once developed, will accomplish the two-fold object, not only of financing future and ready produce of the country, but also inculcating the Banking Habit amongst the masses, which will considerably lessen the strain on the Currency resources of the country. This programme will necessitate not only one but many enterprises of this type on a huge scale under proper guidance and competent management. Capital for such enterprises has to be found, and in the present depressed condition of trade and a prospective hard money market, it will prove a trying task to accomplish.

SECTION 21.—This leads us to state the purpose of our present dissertation. Our aim is to start a Bank with a large Capital, that will commence the line of work we have indicated in the foregoing lines. The Bank will mainly be a "PRODUCE EXCHANGE BANK" working along the lines indicated in the previous sections. Now although the proposal is made with all the introductory remarks to recommend its necessity, it is incumbent upon its promoter to indicate the exact lines along which it is to develop the details of organization, the manner in which the Capital can be raised in these depressed times, the nature of Articles of Association or the manner of incorporation, the solution of the staff problem (one of the most anxious problems in India), the exact manner and the mode of Investments of the Bank's Funds, and above all who is to be found to take charge of such a gigantic and a responsible undertaking. And as I enter further and further into the details, I am afraid I shall be obliged perforce to become a bit more dogmatic and I hope those to whom I am addressing these lines may not consider me either egotistic or overconfident of the success of the scheme just because I happen to advocate it.

SECTION 22.—The central idea in the organization would be to spread a net-work of branches of our concern in order to give the advantage of the scheme to the maximum number of clientele and to spread the influence of our work into every nook and corner of the territory first undertaken as the field of our work. This will also serve the purpose of inculcating the Banking Habit among the masses, a type of work which has not yet been undertaken in India. We fully appreciate that ramification into branches will involve considerable difficulties both as to cost and as to management. Also a programme of branches means the finding of a vast initial Capital. As we go on we shall indicate how these difficulties are to be overcome. The fundamental idea remains that unless multifarious and diffused branches are worked up at small and large centres we cannot effectively accomplish the Banking development in India. Until now the Bank managements in India have looked too much to their immediate gains than either to serve the Banking needs of the country or to develop the Banking Habits of the people. A policy of ramification would have eventually given them more profits than they are now earning. Even the very powerful Imperial Bank of India is spreading its branches only under compulsion of the Statutory Requirements and it is finding it a very difficult and expensive task to accomplish, both as to cost and as to the Staff. Our task is more ambitious and hence still more difficult but our hands are not tied by restrictions on the scope of our Investments unless Government steps in to help us. Then, of course, the problem would become easier of solution. Moreover, any real work for the progress of a country presents difficulties for which a solution has to be found and work has to be done and men have to be found to do the work. Having thus enunciated the exact proposition and the central idea of our organization as ramification of our concern into branches with a view to give the maximum possible service in financing produce as near at source as possible and in all its stages to its final destination and development of the Banking Habit amongst the masses of the country, we will now examine the details of our procedure step by step.

SECTION 23.—While we are emphasizing that the financing of produce as near at source as possible is the major and urgent need of Banking facilities for India, we should not be understood to mean that we are going to start an Agricultural Bank with the object of

helping the peasant or granting loans for a long time for permanent improvement of Agricultural Economy either to individuals or to corporations. Such programme though valuable and very beneficial for the improvement of the Agricultural Economy of the country would be beyond the scope of a Bank such as we propose to start with a shareholders' capital who expect dividends. Such a programme of Banking will require what are called Land Banks created under Government Statute with Government bounty or aid and authorized to issue Mortgage Bonds gradually amortizable out of redemption from their advances. More than our activity, this sort of activity will have to be through the Government instrumentality. Government is already doing a little of this work by way of Tagai Advances, but I understand that the Tagai Advances have never fulfilled the purposes for which they were made nor have they sufficiently covered the field of work obtaining for such line of activities. We are restricting ourselves to the simpler task of financing produce at the first instance, though helping and improving the producer himself is our final goal. Even this field of financing the produce is so vast that it will tax to the utmost the energy of not any single huge concern but many of them. Such Institutions as the Landschaften, Hypothekenbanken and Preussische Central Genossenschafts-Kasse of Germany and Crédit Foncier and Crédit Agricole of France are badly needed in this country but the work of establishing them must be done through the Government instrumentality.

SECTION 24.—As we have said it is not our intention to develop any system of Banking that would permanently help the agricultural economy of the land, though this should in our opinion be the major effort of Banking activity suitable for India's needs. However, as the Capital for such an activity cannot come from the Government instrumentality we must satisfy ourselves with the next best thing for the benefit of the country. Such a Bank as the Crèdit Agricole or the Preussiche Central Genossenschafts would be an ideal condition to obtain for the agricultural benefits of the country the foremost need of the land. If once agriculture is developed along with education and the power of the producer improved, then he would become a formidable class of consumer in the country. Such a step will naturally, along with the Banking habits, inculcated in the producer and the rise of prices accompany

ing therefrom develop the purchasing power of the consumer to an extent that will give a material impetus to the industrial development of the country. Added to this, a tariff policy prohibiting foreign imports and suited to the needs of the country will work a miracle in the industrial development of our country. But this is a story far ahead of our programme. Our aim is only to meet the producer as near at source as possible. Conditions now obtaining in India will prevent us from doing anything more. We have on the one hand to meet the necessity of financing produce as near at source as possible and on the other hand to meet the Shareholders' demands for a dividend. Naturally we have left the former programme of our work for future developments.

SECTION 25.—Such an ambitious programme calls us to find a vast initial Capital. The Capital will have to be found not in Lacs, but in Crores. We propose to initiate the Scheme with an Authorised Capital of Seven Crores and Fifty Lacs (my friends will be staggered at the suggestion) considering the times through which we are now passing, but we may issue only a portion of it for private and public subscription at present, but the Capital of 7½ Crores must be our goal as a preliminary stage and a much greater Capital and Reserve will be required at a later stage of development. Considering the Capital position of the really sound and big Banking concerns in the Foreign Countries, this is not a wild aspiration. The incidence of the cost of the Branches on the Head Office as well as the necessity to command public confidence, before we can develop the Banking Habit among the masses, necessitates this. We cannot render effective and extensive service to the maximum possible clientele without ramification nor can we develop the Banking Habit among the masses without inspiring confidence by the huge Capital behind us. The excellent opportunity which the post-bellum boom presented of a vast accumulation of Capital for this type of work was never taken advantage of by those then in the lime light as financial magnates though their names, prestige and position could have commanded any amount that they needed. The true line of development and the line of least resistance along which Indian Banking, from the very conditions obtaining in India, could have developed in the first instance was lost sight of. The wild hopes of creating magic wonders in the field of Industrial Development of India in slavish imitation of the

Western Countries diverted the vast accumulation of capital from the channels to which it should have been directed. The result was that these accumulations, employed in undertakings for which the country was not ripe, either became substantially impaired or vanished altogether. It is no use to criticise or to mourn the past, but our present work is to find ways and means to make headway in the right direction. I shall now indicate the various lines of approach to the problem of finding the Capital and I shall first state the one manner which I think would be the easiest way to accomplish our end but the most difficult to succeed.

SECTION 26.—Under conditions at present obtaining in the business world in India and all over the World, as also with regard to the state of mind of the defrauded and disappointed investor and the speculator soundly whipped by the post-bellum boom, the best method of approach to the problem of raising the Capital would be through Government. The Government connection will not only help the Capital fund but also inspire the investor's confidence into the scheme. The very nature of our scheme ought to appeal to the Government from the point of view of its own interest. The Revenue as well as the Finance Member will readily grasp their own gains in the project. Diffusion of Banking Habits among the masses at small centres will liberate and put into circulation a vast amount of Capital that will facilitate the raising of Government Loans at a lower rate of interest. The Revenue Member will easily see that the financing of produce future and ready, as near at source as possible, will give the producer the benefit of market prices which now go into the pockets of the middleman, the Agents, and the private Bankers who bind the cultivators' hands at the time of advances. Our help will enhance the prosperity of the cultivator and enable him to pay a correspondingly higher scale of taxation. The Finance Member's task of raising the scale of taxes and the Revenue Member's work of collecting them will both become easier. As we said, though this would be the best method to accomplish our task, it will be the most difficult and perhaps impossible to initiate. However, we can indicate the exact lines along which Government help could be sought and the exact manner in which the Government may assist, if willing.

SECTION 27.—The Government aid can take various forms. Either it can supply a portion of the Capital direct if necessary repayable by instalments out of profits and give a start to the scheme, or give an annual bounty spreading over a number of years until the concern has developed sufficiently, or it may guarantee the return of the Shareholder's Capital up to a certain percentage of yield or it may leave a portion of Government Revenues or Government Balances free of interest at the disposal of the Bank. The supply of direct Capital will naturally necessitate Government's sharing in or supervising the working and the management of the concern until the capital is repaid. The Bank will have to be established under a special Charter of the Legislature that will restrict or clearly define the scope of its work and the boundaries of its Investments. What we would prefer would be a Statutory Concern with defined powers and restricted mode of operation instead of an ordinary Joint Stock Corporation under the Indian Companies Act. The object of our concern being such as is calculated to be of benefit to the public at large or to a section of the public it makes the concern a sort of a public utility concern. Whilst it is also the intention to make profits for the Shareholders in our undertaking, yet so largely are the public interested in the proper working of the concern that the Legislature if it assumes right to restrict and limit its powers of operation and the field of its operation and impose upon it conditions intended to be for the general welfare of the community to whom the proper working of the concern is a matter of grave importance, there could be no objection provided however the Government in some sort of way comes forward to support the scheme and brings it into existence.

SECTION 28.—The Government aid may be either from the Central Government or from the Provincial Governments. The Central Government can afford to part with a small portion of its Provincial Contributions for this purpose. The connection with the Central Government will also leave the management free to operate wherever they find the field most suited without being restricted by provincial boundaries. Moreover, in view of the deficits in the various Provincial Budgets the Government of India is best placed for such an initiative. If the Provincial Governments undertake to aid such an undertaking, there are corresponding advantages. They cannot make a better use of a portion of their

Famine Insurance Funds than to help a concern like this which partly fulfils the purpose of these funds. Moreover, there will be, by its limitation to a provincial area, that intensity of interest in the undertaking on the part of the Government Members directly responsible for the administration of the Province, that we cannot expect at the hands of the Central Government. Furthermore, the majority of the Provincial Executive, both elected and nominated, being Indian, our appeal is likely to find a more sympathetic attention with them than at Simla. However, I am afraid, we must proceed to examine other modes of procedure without much depending upon Government connection. Not only will it be difficult or almost impossible of attainment but if at all we get a hearing or a promise of help, the Government machinery moves so slow except in the case of Government Bills, that the project may be postponed for years or perhaps tabled indefinitely. Moreover, we realize that the hands of the various Governments are pretty full at present.

SECTION 29.—In the absence of Government aid it may be questioned if this is a proper time to inaugurate any new scheme which invites a very large amount of Capital by public subscription. We are quite conscious of the depressed state of mind of the business man as well as the investor. We, however, take a different view of the situation as it now obtains. In many respects adverse times are more favourable for sound work than prosperity and boom times with their distorted visions. In times of adversities and difficulties our judgment is more sober, our angle of vision straight, our perspective of possibilities more likely to be correct than in times of ease. Only we are likely to be over cautious and more diffident of the success or prospects of a scheme than in the normal times. We are putting forward this argument not merely in the enthusiasm of pushing forward our scheme but because we are confirmed in our diagnosis by previous history. Enterprises started in boom times with wild hopes of gains have been less successful than undertakings launched with more mature consideration in either normal or depressed times. We do not by any means entertain the hope that any invitation to public subscription of Capital in these times will prove successful but we hope to indicate the manner in which the Capital from the public may perhaps successfully be attracted. The Capital is there as is evinced by the pheno-

menal rise of Government Securities in the past few years. The Indian Investor is a conservative man, slow to be moved but sure of approach. If a sound project is presented to him in a properly worded prospectus and if he is convinced that it has been previously well supported, there is no question but the conservative type of investor whose funds are seeking investment will respond to our appeal, come forward, and subscribe, and he will be a less dangerous subscriber than the speculator who subscribes only on the strength of a prospect of heavy premium. The fact that the Government is able to float its Loans at increasingly lower rates of interest from year to year proves that if we convince the investing public of the soundness of our proposition, the Capital which is seeking investment or employment can be attracted for our purposes. This year owing to the money conditions prevailing in the first half of the year and the uncertainty of the Currency Policy of the Government, the public has not responded enthusiastically to the Government Loan as they might have done had there been some assurance of avoiding the occurrences of the first half of this year.

SECTION 30.—Now if the Capital is there and if our investor class is of a fairly reasonable type, the question is how to attract his funds for our purposes. He is at present in a mood not to trust even a well worded prospectus inviting public subscription, no matter how strongly it is backed up by a shining Board of Directors or promises of a high yield on his outlay. The scars of his finger burns are too fresh for him to forget his previous experience and a new mode has to be found to induce him to join hands with us. If we take for granted that our investor class as such is sound at heart, reasonable in his head, not altogether impervious to proper appeals, then if we present to him our proposition as an entirely *bona-fide* scheme there is a possibility that he will respond to our appeal and co-operate with us. The manner of approach must however be distinctly convincing and this could be accomplished only by pointing out to him that the scheme or the project presented to him has been originated and formulated by competent men who know the line and that it is backed up by strong and powerful interests. In short, a substantial portion of the Capital will have to be found under private subscription through the instrumentality of those who have both the means and the insight for such an undertaking.

To these entrepreneurs as well as the monied classes, the proposition will be presented not as an object of charity or sympathy, but a sound and profitable business proposition which it would be to their own advantage to encourage and to finance. Unless private subscription has been thus secured and the project is properly backed up, it will be useless to approach the general public and invite their subscription. The times are such and we must work under conditions as they now actually obtain. Next to the difficulty of obtaining Government aid, we know this is a very trying condition imposed upon us. But he will be a bold man or a mad adventurer with wild hopes of success who, in these days, expects to float a large undertaking by public subscription without making use of some special *modus operandi*.

SECTION 31.—This is by no means an innovation of the manner. The public has already been many times fooled by Prospectuses giving stories of private subscription and Underwriting Syndicates They have now but little faith left to listen to any stories of this sort. We had during the post-bellum boom the regular trick played by the broker and the confidence man who approached us telling us of a highly profitable scheme which had practically been entirely subscribed, but as a matter of favour he could give us a little share of it. He assured us that it was bound to be many times over-subscribed and the shares would rise to a high premium as soon as it was offered to the public and often times in those days it used to be so. To-day we have to be more cautious, the Prospectus has to be more sincerely worded, the private subscription has to be actually assured and we must be prepared to commence our work with or without public subscription. With this preparation only can we hope to launch our enterprise and I assure those whom I invite to become Directors that their promise to become Directors will be utilized only in case I succeed in actually obtaining private subscription for the project to the extent of about half the amount of Capital offered for subscription. I am sure there are many substantial and conservative business men, Rajahs, Maharajahs and wealthy gentry who can see the force of my arguments and who would be interested in working out and encouraging the scheme. If we cannot get such private strong support, we may as well drop the project and wait for better times. I think, however, our sense of duty calls us to commence or at least tells us

to try to commence as early as possible. It took many decades for economic re-construction and reversion to normal times after the Napolionic Wars in Europe and after the Civil War in the United States and we may have to wait for half a century or more perhaps for the complete economic re-construction after the havoc the World War has created. It is no use simply mourning the conditions in India as they now obtain but something has to be done to improve them immediately. Now I shall try to explain certain difficulties in the way of working the scheme besides that of obtaining Capital.

SECTION 32.—Before we can induce the Capitalist to subscribe privately or approach the public for open subscription, we must indicate the prospects ahead of the scheme, the possible measure of its success and the chances of risks involved in the working thereof. In the first place, it will require little argument to convince the would-be subscriber that the policy of the Bank leaves little or no room for losses, *i.e.*, it will be a clean business without risks and dangers attached to the ordinary Credit Operations. Produce of the soil in possession of the Bank in the Bank's godown and properly insured would form an excellent security for the Bank's advances. Any advances made on future produce would be on proper security and even then the Central Board will determine the percentage of the Bank's Capital to be invested for this purpose. It must be noted that at the early stages of the career of the Bank, we do not propose to undertake the more difficult and less remunerative work of financing the producer at source. We know that is the type of work which would be more useful and beneficial to the producer class as such but until the machinery of our organization is further developed we shall have to leave that work to be done by the Co-operative Societies and other private agencies that are doing it now. We may co-operate with the Co-operative Societies in that kind of work by being useful to them whenever they want our help. While it would be criminal misrepresentation of facts to hold out wild hopes of dividends or premia on their Share Holdings in the early career of the concern to the investing public for an enterprise like this, it has been the common experience of the past that the well managed and soundly conducted Banking and Insurance Companies have paid increasingly higher and substantial dividends as may be seen from the yield on the shares of any of the old Institutions and consequently the Shares of these Institutions have risen to a considerable premium in due

course of time. Our policy will be safety and liquidity of assets first and gains afterwards. As the Reserves will grow and the Deposits expand, the yield on the Capital will grow higher and higher from year to year. There could be other possible sources of revenue besides the mere interest on advances. The Bank may act as an Agent at markets and terminals to dispose of Constituents' produce in its possession and charge a certain amount of commission on the sales. The Bank will *pari passu* become the Depositary of their proceeds. As the producer or the small trader gets an idea that his sale proceeds are in strong and safe hands and available for him at any time on demand he is not likely to draw upon them except as he needs them. In fact this is the system now prevailing in many parts of India where the Sowcar advances against pledges of produce. This will automatically tend to develop the Banking Habit amongst the masses of the people, one of the central ideas of our organization.

SECTION 33.—At the initial stage of the existence of the Bank, the Head Office in Bombay in order to keep the funds of the Bank employed before the machinery for advances against produce is developed, can engage in general Banking and Agency Business keeping however her advances against produce as its final goal. With this end in view, it will have to keep its assets in a fairly liquid condition so as to be able to transfer them to the centres of production as the organization develops. The Bank can in its Charter or under its Memorandum reserve power to keep an Insurance Department of its own and after a sufficiently large clientele is formed can commence to write Insurance of the mortgaged produce in its own Insurance Office. The very nature of transactions will create a considerable demand for insurance and this could be made a lucrative source of revenue for the Bank. Thus interest on advances, agency business and insurance premia, all combined would bring in substantial revenues so as to leave no worry to the Shareholder for his yield. In fact Banking and Insurance business are so closely related to each other and so similar in their nature by way of their public utility and responsibility that they are to be carried together as they form an excellent and mutually profitable combination. But if we are to be absolutely honest in our representations to those of our friends and supporters whom we approach to help us to launch the scheme we

must also point out to them the possible sources of losses and the steps that could be taken to avoid or to minimise them. Deterioration of the quality of produce while in the Bank's possession, violent fluctuations of produce prices and famine conditions are some of these. The first may be guarded against by insurance or placing the risk on the owner and the borrower under the Agreement of debt, the second by keeping a substantial margin at the time of the advance, and limiting the period during which an advance has to be repaid, but the third is a more serious business. The possibility of famine will limit our activities in the way of advances against future produce, and without advances against future produce extensive and effective service cannot be rendered. I shall indicate now in what manner this difficulty may possibly be overcome.

SECTION 34.—In the first place, we will have to commence with a policy of restriction on the type of work of advancing against future produce, *i.e.*, there will be a strict limit as to the amount or the percentage of the Bank's Capital and Reserve to be applied for purposes of advances against future produce or perhaps the work of advancing against future produce will have to be postponed altogether for some time. If we limit our activities to advancing to those constituents only against future produce who pay a certain amount of land tax, it would become safer but this is not the solution of the problem. If we can induce the Government to grant us some sort of protective legislation, then the problem may be solved by spreading over a number of years the repayment of advances made in the famine afflicted areas. Now famine conditions do not prevail all over the country in the same year. Such a general calamity has, of course, been known in India in the past history but the progress of irrigation and transportation and future programmes thereof have greatly eliminated such a contingency. Therefore, our trouble so far as advances against future produce are concerned may become restricted to a limited area and to a limited clientele. This, combined with our initial policy of restriction of such advances would minimise the losses so far as private agency is concerned. But if we can get the Government in some way to connect the Famine Insurance Fund to this kind of the activity of our concern, the problem would become easier of solution. If the Government would undertake to take a pledge of the advances of the Bank locked up as a result of famine conditions and set

free the Bank's Capital by way of an advance out of the Famine Insurance Fund, the machinery so set up can do splendid work. Banking is not a Sowcar business purely for profit. The Bank is in the field of business to render a distinct public service to its constituents, to help him and to improve him. If the Government sees that the Bank has helped the producer to improve himself and provided funds at a lower rate of interest than would possibly have been available in the absence of Banking Institutions, the Government may be prevailed upon both to pass the protective legislation which we require as well as to utilise the Famine Insurance Fund for the purposes we propose.

SECTION 35.—The strongest criticism that may be levelled against us is that ramification into branches without which maximum possible service of the kind we propose cannot be rendered nor the purpose of our policy served will entail high costs. We are fully conscious of the dilemma, on the one hand to get the Shareholders their due return, and on the other hand to render effective service to the public. We, however, maintain that we do not propose to start a net-work of branches all of a sudden but proceed gradually as we develop our strength. No single individual or a concern can possibly completely cover the field indicated in the foregoing lines. We are simply pointing out the lines along which we undertake to work, along which we think Banking ought to succeed in India and along which line Banking ought to be developed in India *in the first instance.* With this reservation and caution our programme of branches could be interpreted as entirely legitimate. There is another device that we propose to introduce as a forerunner of branches at small centres where they may not become immediately paying. We can at the smaller centres keep the branches open bi-weekly, weekly, or twice a week as may be necessary and yet render effective service. The same staff can work at one sub-centre one day and at another, another day. We can also institute a system of travelling agents who will visit still smaller centres on behalf of the Bank, collect Deposits and arrange for Advances. This will considerably lower our cost of management of branches and yet render effectively the type of service which we propose to give and develop the Banking Habit amongst the masses. It is particularly for this service, *i.e.*, the ramification, that we want Government aid. This obtained the pace of our march could be much accelerated.

SECTION 36.—This brings us to the major difficulty in Banking business in India—that of the Staff. It is very difficult in India to find trained staff to take an independent charge. It is still more difficult to find competent men with a sense of responsibility and loyalty to the service and where we find them, their demands are so exorbitant, their self-valuation so high that it is impossible to make use of them in a legitimate business way. The same Indian youth, a University Graduate who would make any sacrifice for the cause of education or political propaganda of the country, if called upon to work in the business line, will demand an exorbitant price for himself, not thinking that a business concern also at its preliminary stages calls for some sort of self-sacrifice. Coming to the men of lower grade of training we have the self-same story. They are worrying more about their pay than the efficiency of the work. The result is, in India, we get management and clerical service at a far higher cost than in the Western countries and the most anxious problem for the head of a management of a concern in India is that of the Staff. Inefficiency, incompetency combined with wild ideas of self-valuation make the service far more costly than in other countries. Conscious of all these defects in the enlistment of the staff I think our University men will prove sound at bottom if once they are made to see that a business concern is not a gold mine but a field for public service. Then I am quite sure that from amongst our University trained men we can enlist a sufficient number of competent men to execute our programme. They ought to be previously convinced and educated at the Head Office as to the utility and necessity of our programme for the national good as well as to the eventual certainty of their prospects in the service. A scheme of covenanted service should be formed with a graduated scale of pay and pensions that will assure them of the permanence of their service and prospects of their career. My personal experience is that we can fairly well rely upon a well educated University Trained Indian Graduate at the remotest branch provided he is trained at the Head Office and imbued with the spirit of the work and a sense of loyalty to the Institution by personal contact with his Chief. The policy of our business precludes the necessity of much independent judgment, the Central Board fixing the rates of interest of and margins for advances and all other details as to the administrative routine.

SECTION 37.—The chief products of the Bombay Presidency that call for financing are rice, cotton, other seed grains, timber, etc. There are two difficulties with the producer in the marketing of these products. The one is that at the time of assessment he is obliged to sell his products at a sacrifice in order to meet the taxes, and the second that if he is in a position to meet the taxes without sacrificing his new crop he is unable to reap the advantage of any rise in prices in the monsoon times owing to the difficulty of transport to the larger market centres. This means we have to arrange financing of the producer so that his necessities would be met at the times of the assessment and secondly arrange for godowns at market centres where he can rent a Bank's godown and store his produce either as pledged or unpledged with the Bank for sale when the suitable time comes. This will enable the producer to reap the advantage of the rising prices during the monsoon times when easier money market conditions prevail. Another difficulty of the producer may be mentioned incidentally, that during the monsoon times he is obliged to borrow from the Sowcar Loans in kind at a very exorbitant charge, often as much as one and a half times of what he has borrowed in kind at the end of the monsoon, that is, as soon as he gets his new crop in hand. This handicap of the producer is being solved by the Co-operative Credit Societies by advancing him in kind to tide over the monsoon period, but the work must be done on an extensive scale if effective service is to be rendered. These few details of the organization are simply mentioned here to give an idea of the types of activity which the Bank will undertake near at source eventually. We have, however, made clear previously that this sort of direct help to the producer would not form a part of our programme at the early stages of the Bank's career, as the Bank will have to be first placed on a dividend paying basis at the earliest possible moment and therefore the point at which the work has to be commenced is as mentioned before at the small market centres where the produce has already been gathered by the small trader.

SECTION 38.—It may be asked why some of the existing Institutions could not be induced to undertake this type of work. In the first place, the field is so vast, that to cover the whole ground it will not only tax to the utmost the energy of existing Institutions and the Co-operative Credit Societies but many more huge Institu-

tions coming into the field will find it difficult to cope with the task. One model Institution having laid down the lines of work, the system once organized and the producer seeing the benefit of it, there will be such a crying demand from all over the country for the facilities thus offered that it will be impossible to meet them rapidly enough. In fact persons from various small centres have already approached me with the request to develop just such facilities as we have proposed to grant. We have seen moreover that the existing Institutions are doing a part of the work now, they are financing produce at large centres and in transit to terminals and at port towns. We have also seen that the Co-operative Credit Societies are doing the work nearer at source. We have examined the limitations and insufficiency of both the activities. The larger Institutions working at large centres which have already taken up as the major field of their activity the Commercial Banking, have already determined their policy in that direction. Their hands are sufficiently full with the commitments and the responsibilities they have undertaken. It would be unwise to curtail the operations of the Commercial Banks who are now granting credit to trades people by way of discount and directing their activities in our direction. They are doing a highly useful work which not only must be continued but must be expanded. We want yet greater number of Commercial Banks in this country established on a large scale. If departmentally the Commercial Banks would undertake this sort of activity perhaps their organization would become too unwieldy. It would be best to have Institutions for this purpose with a programme like this as a specialised line of their activity.

SECTION 39.—We go even further. Not only should the existing big Institutions keep to their own line of work but they should on the contrary help to bring about the formation of Institutions such as we propose. The field of Indian Banking is practically unexploited. We want many more big Banks all over the country so as to form a frame work of credit Institutions, well organized, capably conducted, working along sound lines and forming a powerful combination for mutual assistance and protection so that no petty disturbances or monetary stringencies or impairment of credit of any member of the combination can shake the foundation of any one of them. If the existing Institutions take the right perspective

19321

we have in view they will not only cordially endorse our scheme but help us to realise it. This is by no means a novel suggestion. Th Big Fives of London have many times helped to bring about th existence of credit institutions and Banks designed to work along special lines.

SECTION 40.—The execution of our programme of helping and improving the producer and dealer in produce as near at source as possible would be considerably facilitated and widely benefitted if some sort of protective legislation can be secured for the Bank. To help directly the agriculturist himself there is the obstruction of the Deccan Agriculturist Relief Act, an Act which was designed at first to protect the agriculturist from the clutches of the Sowcar, but has become now an impediment in the activities of a Bank such as we propose. The Banker is in the field not only for his gains but with a view to help and improve his clientele. He has a higher sense of responsibility and duty towards the public and his existence is justified only by such an attitude on his part. If this is granted then the Banker in his relation to his Customers would get preferential facilities and treatment as compared with the ordinary lenders, that is, there should be a speedier method of recovering his dues from a defaulter than by the ordinary course of Laws with its usual delays. The exact line of legislation could be left to the lawyer but we have suggested the need as it appears to us. Of course, it will not be easy to procure such legislation speedily but we can make attempts in that direction. In the meanwhile we do not mean that our work should be stopped or we should wait to start the working of our project until this legislative protection is secured.

SECTION 41.—A side branch of the activity of the Bank would consist in encouraging, promoting and perhaps itself undertaking the work of such industrial activities as are related to agriculture. For instance the Bank will help such concerns as undertake to develop dairies, including such activities as manufacture of butter, cheese and ghee, fruit canning, manufacture of farm implements, manufacture of gule on farm, extraction of oil from oil seeds, milling of rice, sawing of timber, manufacture of ropes and all other elementary industries which can be strictly termed as industries related to agriculture.

(A COPY OF THIS PROSPECTUS HAS BEEN FILED WITH THE REGISTRAR OF JOINT COMPANIES, BOMBAY.)

(*Applications for Shares will be received up to the day of* 1924.)

(THE INDIAN PRODUCE EXCHANGE BANK, LIMITED.

(*Incorporated under the Indian Companies Act, No. of .*)

AUTHORIZED CAPITAL (Seven Crores Fifty Lacs) Rs. 7,50,00,000 divided into 750,000 Shares of Rs. 100 each.

ISSUED CAPITAL (Two and a Half Crores) Rs. 2,50,00,000 of 250,000 Shares of Rs. 100 each.

Of these 100,000 Shares have been subscribed by the Directors and their friends, and the remaining 150,000 are offered to the Public for Subscription.

The present issue is offered at Par and payable as follows :—

ON APPLICATION Rs. 10 PER SHARE.

ON ALLOTMENT Rs. 10 PER SHARE.

The Balance as and when required in calls of Rs. 10 each at intervals of not less than three months after allotment. It is intended that only up to Rs. 50 per share will be called up at present, the Balance to constitute an Uncalled Reserve.

Directors.

Solicitors.

Auditors.

Bankers.

Brokers.

Managing Director.

Registered Office.

PROSPECTUS.

Objects of the Concern and its Field of Operation and Prospects.

The Indian Produce Exchange Bank, Ltd., is being created primarily for the purpose of financing India's produce at source, at small market centres, in Transit inland to Terminals at Port Towns and Overseas and also with a view to inculcate the Banking Habit amongst the masses by a policy of ramification. The Bank will also conduct general Banking business at the large centres.

2. India is mainly an agricultural country and requires a Banking Service that will finance her produce from source to its final destination. The crying need of funds at the time of seasonal movement of crops exposes the Banking need of the country in its bare nakedness. The absence of Banking Institutions at smaller centres has been a cause of the restriction of the mobility of Capital, want of Banking Habit amongst the masses and a strain on the Currency System of the country.

3. It does not need any statement of facts and figures or any lengthy argument to prove the fact that the field for the development of Banking in India is very vast and that the existing Institutions have not covered even an infinitesimal part of it. We want many thousands of Banks for a vast country like ours with tens of thousands of banking offices to develop the Banking resources of the country. There are thousands of small and large market towns and lacs of villages that would welcome some sort of development of Banking facilities and would in turn be a source of help for enlarging our Banking resources.

4. So far attempts at Banking experiments in India have been, except in few instances, made by untrained hands and with insufficient Capital. Moreover, the direction in which Banking development ought to have taken place in an agricultural country like ours was mistaken. The superior and organizing brains of the country having taken to the Government Service and learned professions, the responsible organizations for building up the modern machinery of Banking in the country became a field of experiment for the mediocre. The sad results are well known.

5. The present Banking facilities in India are only at large centres and they do only a part of the work which we advocate doing. They are financing produce at large centres and in Transit to Terminals and the Exchange Banks are financing it under Export Overseas. The special need of Banking at smaller centres has not been met. In fact the type of Banking required for India's special need has not been commenced and forms a lucrative and profitable field for Banking activity.

6. We want in India a good number of powerful Banks with large Capital under competent management that will form a strong combination, be a source of strength to one another and protect each other in times of need.

7. As our Bank's policy will be to advance against produce and as such conservative, with due regard however, to the service to the public, the Investor will find in the Shares of this Bank an excellent channel for the outlay of his Savings and Surpluses. We do not want to misguide the public by holding out hopes of any very high dividends in the early career of the concern. No sound Banking Concern can afford to pay high Dividends in the first few years of its career but as Reserves and Deposits grow and the Institution advances in years, the Shares of such a conservatively managed Institution are bound to yield higher and higher Dividends and the Shares are bound to go to a premium. It is a well known fact that the Shares of well managed Banks and Insurance Companies have gradually earned increasingly higher Dividends and have risen to a premium in course of years. As we shall be working at smaller centres, we shall be getting an advantage of a larger return on our outlay and we hope a fair Dividend will come in even during the earlier career of the concern.

8. The policy of pledging produce will also give us control over a vast amount of the country's produce for which we can act as Sales Agents at Terminals and Port Towns and also earn Commissions. It may be objected that the policy of spreading a net work of Branches will entail a cost that will tell upon the Dividends but our idea is to spread a net-work of Branches only gradually. We want to introduce a new system of keeping Branches at sub-centres open only once or twice a week or bi-weekly and also to appoint Travelling Agents at still smaller centres to arrange for

Loans and Collection of Deposits. This system will give the advantage of Branches without incurring the heavy expenses of maintaining them.

9. Our policy of working at smaller centres and being Sales Agent for the producer for the pledged goods will *pari passu* make our Bank the depositary of our constituents' funds as he sees that they are in safe and sound hands and available for him at any time to command. This will give the two-fold advantage of profiting by the constituents' Deposits and inculcating in the masses the Banking Habit. Moreover, at present the advantage of market prices goes to the middleman and the Sowcar who binds the producers' hands at the time of the advance. If once the producer sees the advantage we give him and the service we render to him, we shall form a powerful Bank with the present hidden strength of the Capital of the masses behind us.

10. While in the Memorandum very wide powers will have to be assumed it is not by any means intended that the Bank will operate in all these fields. It is the usual policy of all concerns to reserve wide powers in their Memoranda to ensure freedom of action, but we know of no Company or Corporation that makes the items of its Memorandum *in toto* the field of its activity. We have indicates the major line of our work and we shall mainly finance produce of the soil and undertake activities incidental thereto, surely a safe and sound line of business activity.

11. **Promotion Money and Commission for placing Shares.**—No Promotion Money is being paid but the Memorandum and Articles of Association provide for the payment of a reasonable Commission which has been fixed as to 2 per cent. underwriting fee and 1 per cent. brokerage which will be paid on Shares allotted.

12. **Qualification of Directors.**—The qualification of a Director is the holding of Two Hundred Shares of the Company in his own right, and the remuneration of a Director, excepting that of the Ex-Officio Director, is to be such amount as may be fixed by the Directors not exceeding Rs. 50 for each Board Meeting attended by him and that of the Chairman at Rs. 100 per Meeting and such further remuneration (if any) as the Company in General Meeting shall from time to time determine.

13. **Memorandum and Articles of Association and Issue of Share Certificates.**—Copies of Memorandum and Articles of Association of the Company can be inspected at the Registered Office of the Company at any time during business hours. The ISSUE OF SHARE CERTIFICATES is subject to the condition that the Certificates of the Shares may not be completed and ready for delivery until 6 months after the allotment of the shares.

14. **Preliminary Expenses.**—The Preliminary Expenses of, and incidental to, the formation and floatation of the Company are estimated not to exceed Rs. 30,000 exclusive of any Brokerage, and will be borne and paid by the Company.

15. **Commencement of Business.**—The minimum subscription on which the Directors will commence business is fixed at one Lac of Shares, but the minimum subscription has already been taken up privately and the Bank is ready to commence the business.

16. **Contracts.**—No Shares are to be issued as paid up otherwise than for Cash. There are no Contracts made of any sort for purchases of property or otherwise for which either Shares are to be offered as paid up or Cash is to be paid after the formation of the Company.

17. **Directors' Interest.**—The Directors have no interest of any kind with the Company as Vendors or Purchasers or are and sums due to them for any transactions.

18. **Votes.**—Each Share will carry one Vote on a Poll.

19. **Application for Shares.**—Applications for Shares must be made on the attached form which must be filled and forwarded in entire, along with the Application Money, to the Company at its Registered Office. Application Forms can be obtained on application at the Registered Office of the Company.

20. **Names of Directors.**—The following are the names, addresses and description of the Directors :—

Names.	Addresses.	Description.

Dated this . day of 1924.

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on 29 July, 2018